

# Annual Report

## *Commonwealth of Virginia Health Benefits Program*

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*December 2003*



Department of Human Resource Management

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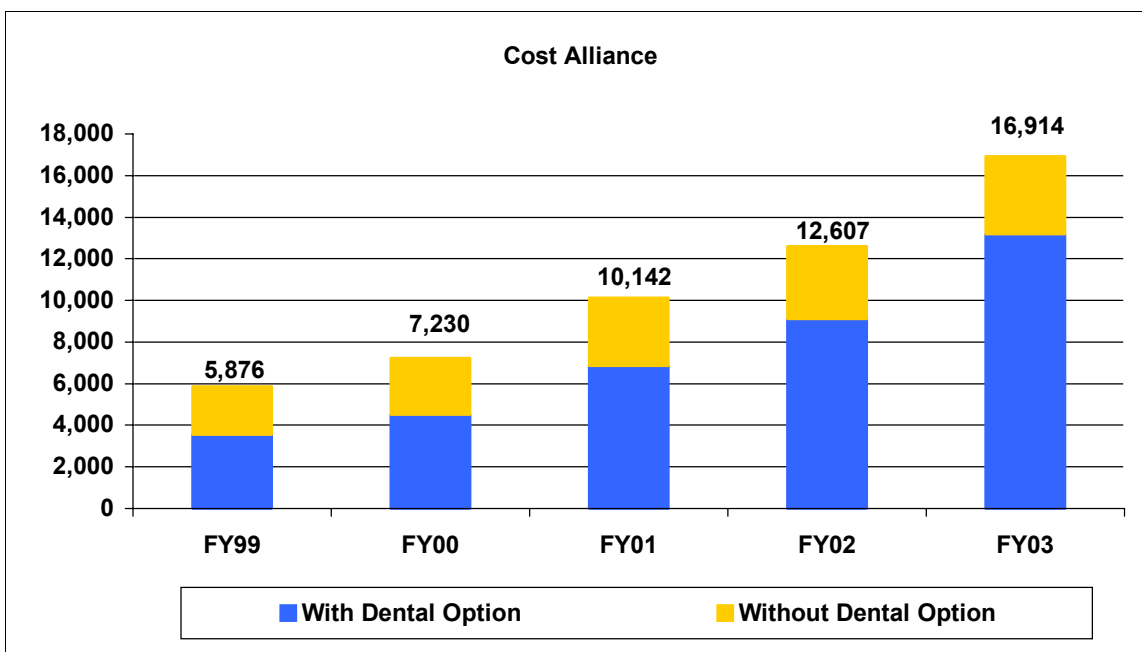
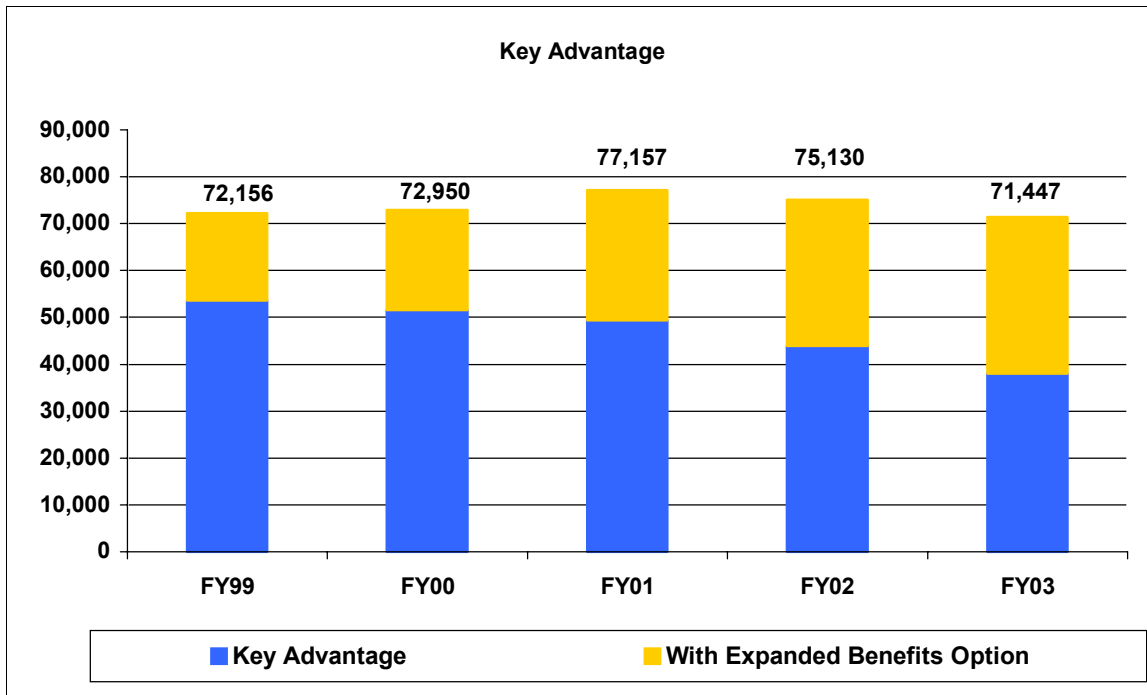
# Introduction

Expenses for the Key Advantage and Cost Alliance self-insured health plans continued to increase in fiscal year 2003, reflecting the nationwide trend of a continued rise in health care costs. Primary cost factors for the Commonwealth's plans included higher inpatient and outpatient facility expenses, increasing pharmacy costs and the aging of plan members.

*Please Note:* This report presents a financial overview of the self-insured health benefits plans administered by Anthem Blue Cross and Blue Shield for the active employee and non-Medicare eligible retiree group during fiscal year 2003 (July 1, 2002 through June 30, 2003). Most of the data reflects the combined operations of Key Advantage and Cost Alliance because the plans are evaluated together as if they were a single plan.

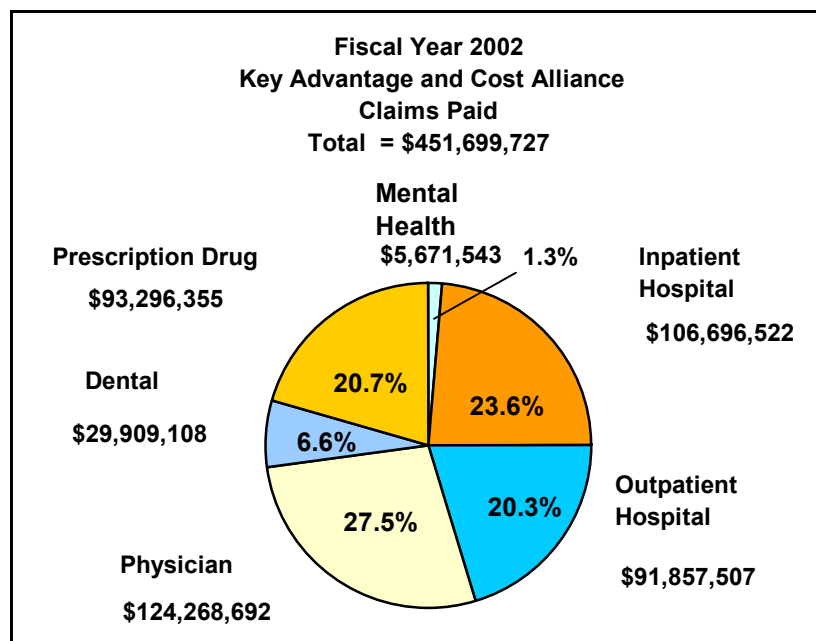
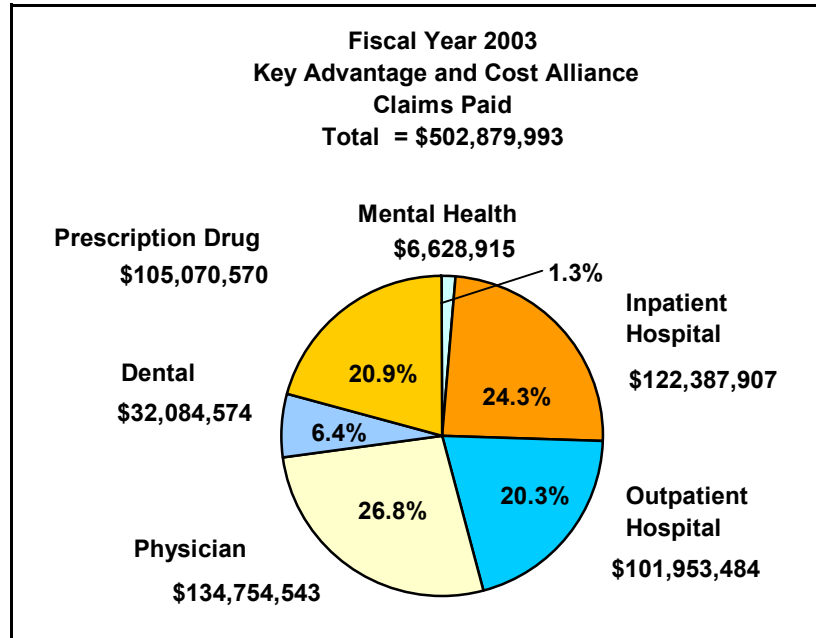
# Enrollment

These charts show the total enrollment in the Key Advantage and Cost Alliance plans for fiscal years 1999 through 2003.



# Claims and Utilization

Claims paid for each component of the self-insured health benefits program are shown here for fiscal years 2002 and 2003. Rising health care costs continue to influence the program's expenses. Over the past five years, claims have increased 58%.

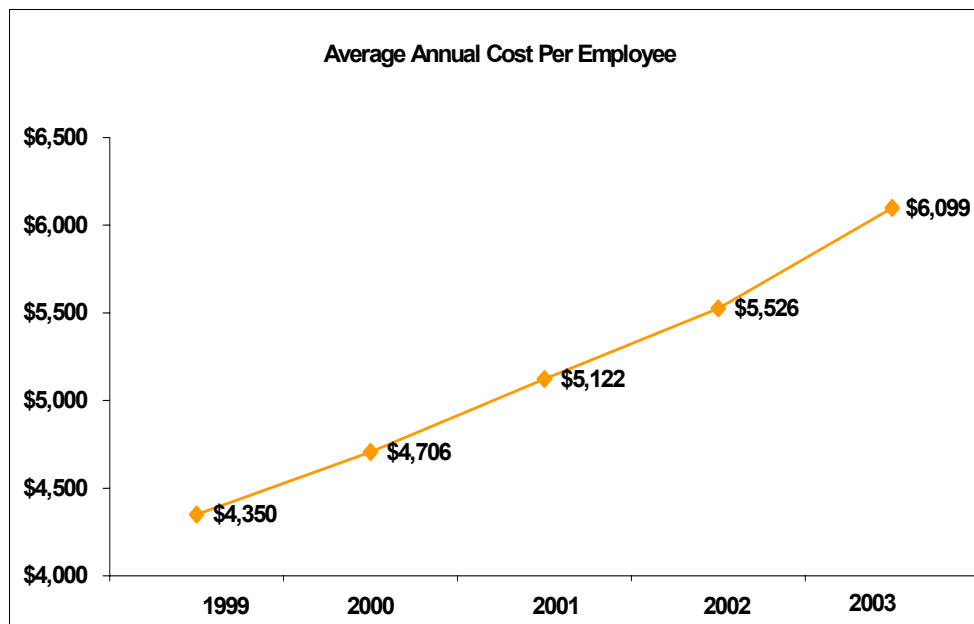
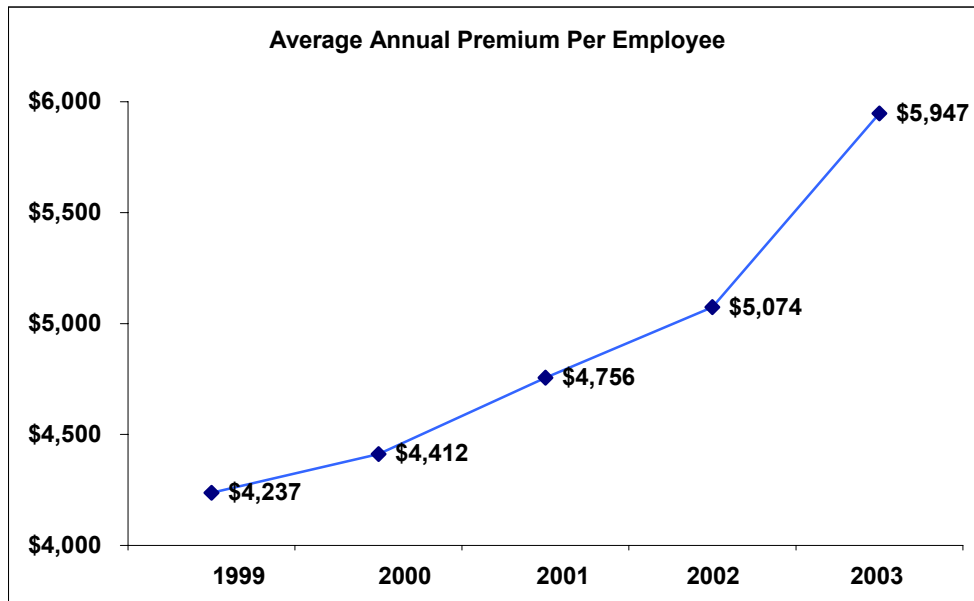


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## Cost of Coverage

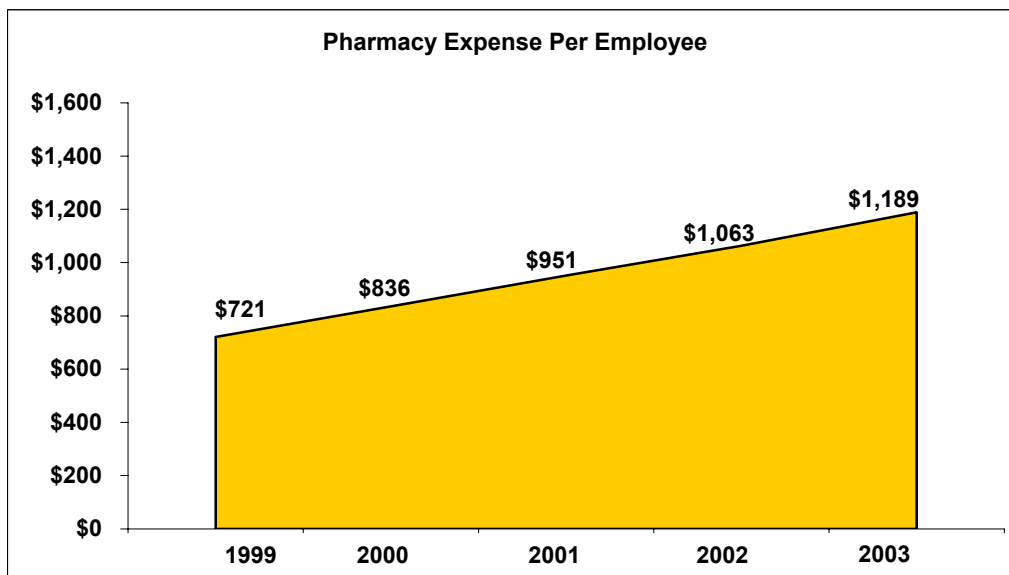
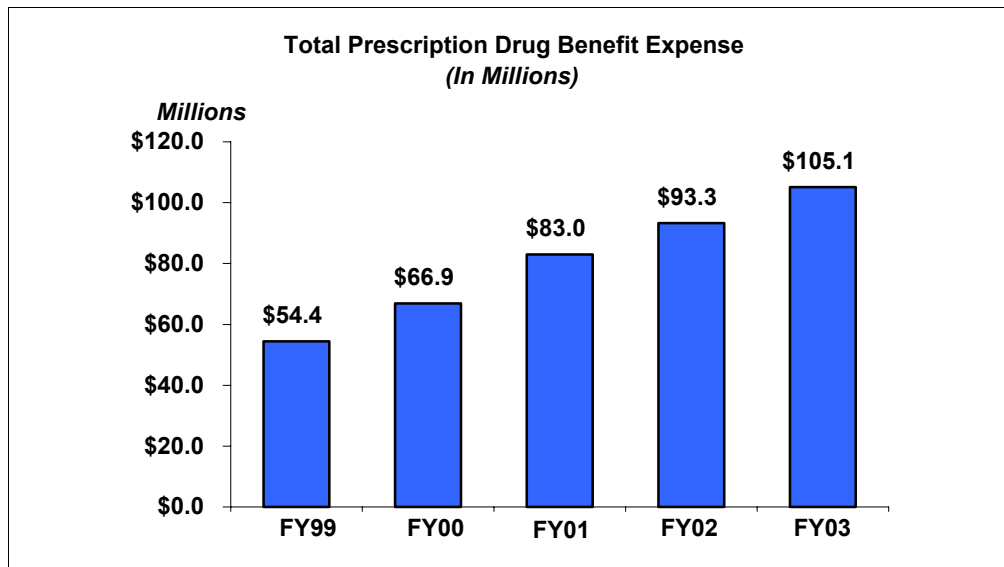
In 1999, the average annual premium per employee for Key Advantage and Cost Alliance was \$4,237. The cost rose significantly in 2003, to \$5,947, or an increase of 40% over five years. Average annual premiums shown in the chart below cover the costs for medical, dental, outpatient prescription drug, and mental health and substance abuse coverage.

The Commonwealth's cost of providing coverage per employee also experienced a 40% increase during the same five-year period, from \$4,350 in 1999 to \$6,099 in 2003.



## Prescription Drug Benefit

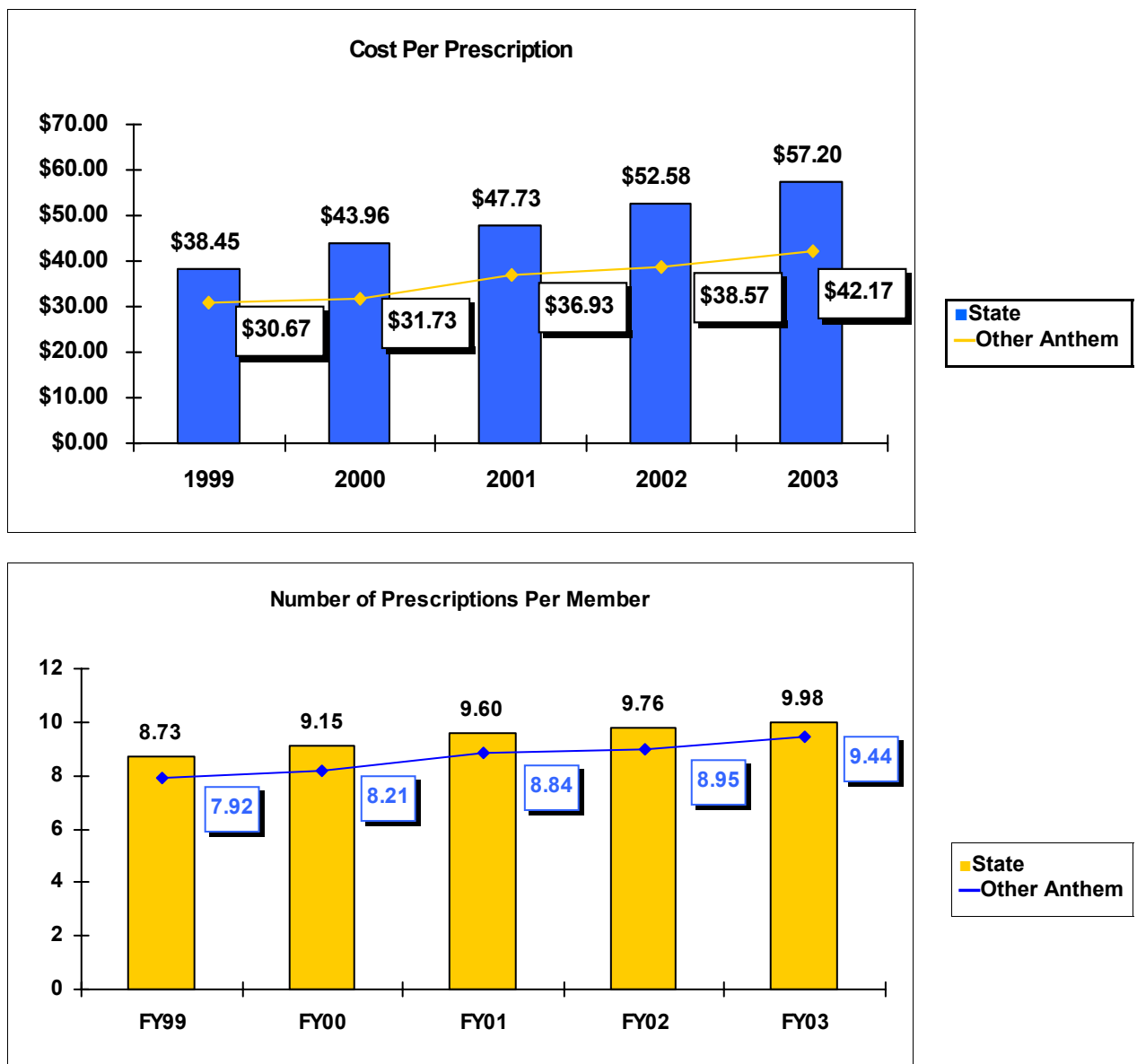
Over the past five years, increases nationally in the cost of outpatient prescription drugs have eclipsed other medical costs. Balancing costs and benefits while maintaining a viable health benefits program continues to be a difficult challenge. As indicated in the charts below, the total prescription drug expense for state employees has increased 93% since 1999. Our drug costs per employee have risen 65% since 1999 and were up 12% from 2002 to 2003 alone.



## Prescription Drug Benefit

Prescription drug costs for the State Health Benefits Program continue an upward spiral. As shown in the first chart, the cost per prescription has risen by 49% since 1999. The chart also compares our program's average cost per prescription to other Anthem employer group plans.

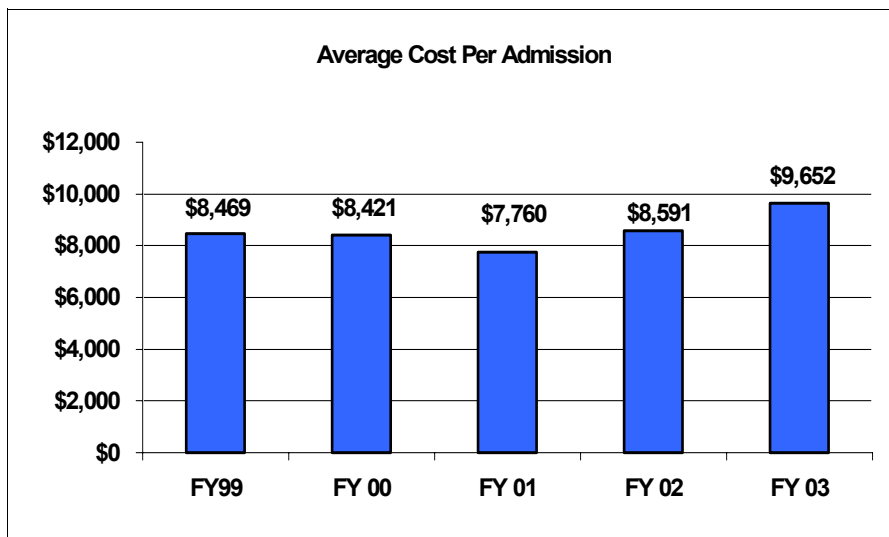
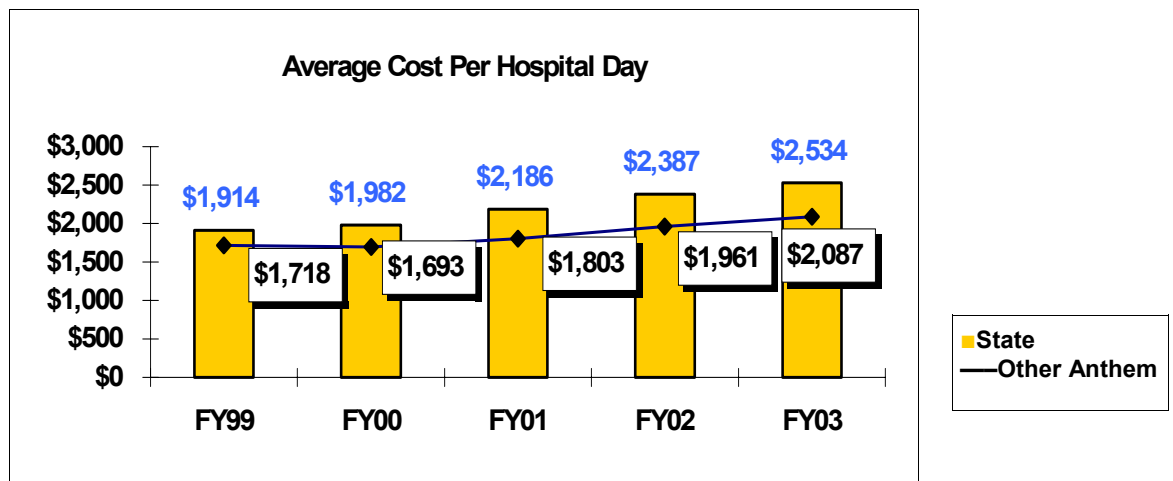
The program's number of prescriptions per member has increased 14% over the last five years. The lower chart shows the program's statistics versus the number of prescriptions per member in other Anthem employer group plans.



## Inpatient Facility

Total inpatient facility costs increased 15% in fiscal year 2003 over the previous year. As shown in the chart below, our average cost per hospital day has risen steadily since 1999. The average cost per hospital day reflects a net cost including the network facility discount. This chart also shows the average cost per hospital day for other Anthem employer group plans during the same period.

Despite a slight drop in 2001, the average cost per admission has trended upward in the past two years. A rise in both the average length of a hospital day and the cost per admission is due in part to an increasingly older employee population.

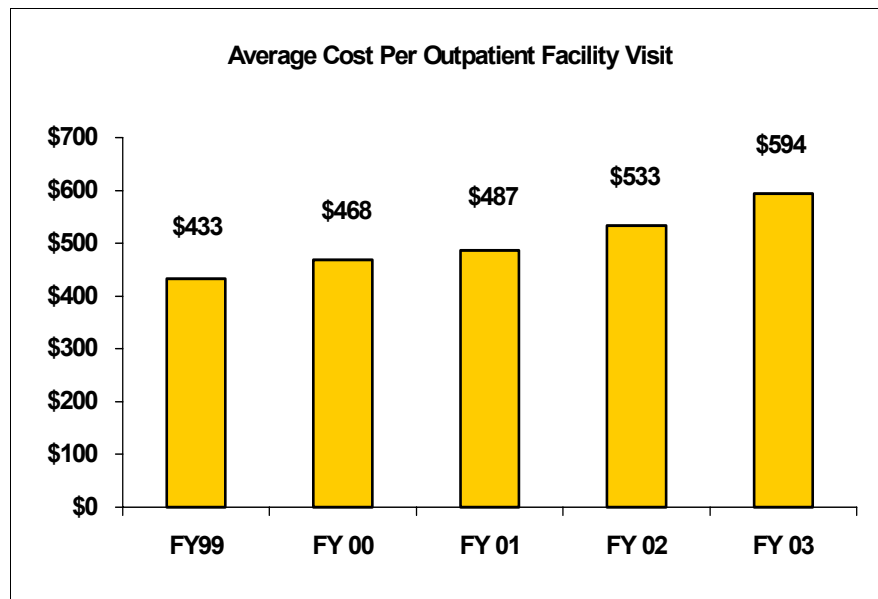
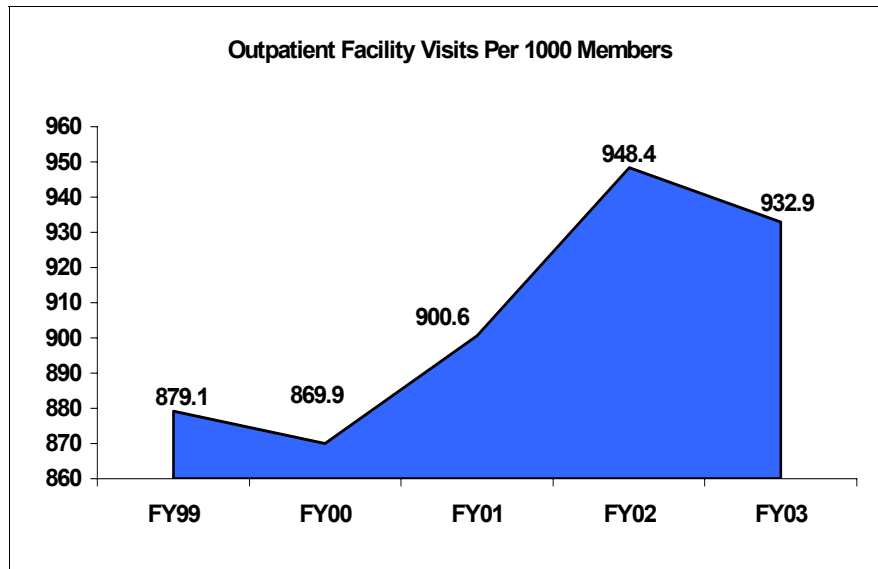




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## Outpatient Facility

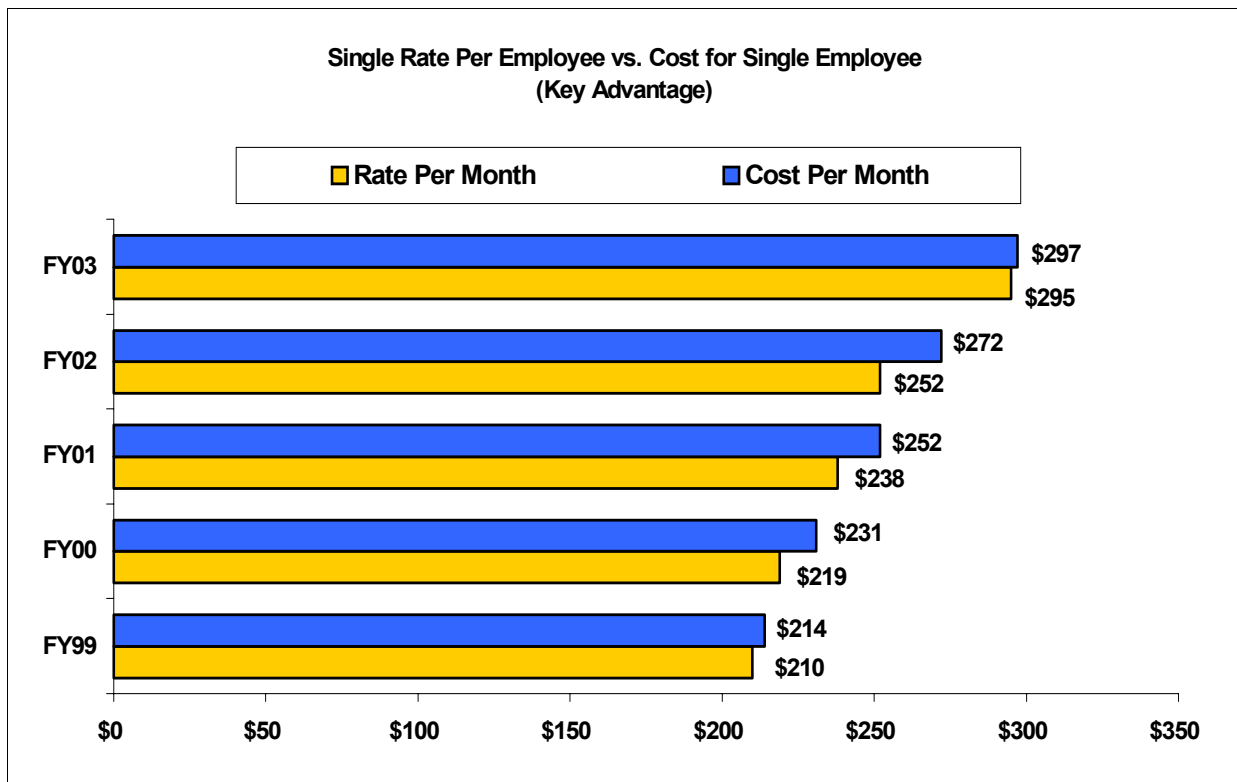
While showing a decline in fiscal year 1999, total outpatient facility expenses for our program have risen 65% since that time. The charts below show that the cost per outpatient facility visit increased 11% in fiscal year 2003, even though there was a 2% drop in the outpatient facility visit rate from the prior year.



## Focus on Key Advantage

Total expenses to operate the Key Advantage plan continued to be greater in fiscal year 2003 than the actual amount of money put into the plan, creating a deficit. The chart below compares the monthly rate paid per employee (money put into the plan) with the cost to provide the coverage each month (total expenses to operate the plan).

Deficits must be paid through reserves or higher premiums. The chart on page 10 illustrates how plan reserves have deteriorated and are no longer available as a funding source. Since higher premiums were not a viable option, the state program introduced a redesigned health plan (COVA Care) for fiscal year 2004.



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## Operating Statement

Premiums provided almost all of our income in 2002 and 2003. Claims payments represented about 94% of our expenses. Deficits occurred in fiscal years 2002 and 2003 in part because of rising prescription drug costs, higher inpatient and outpatient facility costs, and the aging of plan members. The cost to operate the plan was more than the annual income collected for the plan.

Program losses in 2002 were paid by using reserves and increasing premiums. In 2003, state premiums were raised to address the effects of a continued dramatic increase in national health care cost trends. In response to higher health care costs and the impact on employees, the Key Advantage and Cost Alliance plans have since been merged into one restructured plan with premiums paid by all employees.

PROGRAM TOTAL	FISCAL YEAR 2002	FISCAL YEAR 2003
<b>Annual Income</b> <i>(Premiums, Interest, Other)</i>	\$451,751,017	\$526,350,237
<b>Annual Expenses</b> <i>(Claims, Contract Administration, Other)</i>	\$487,476,739	\$532,037,581
<b>Income Less Expenses</b>	(\$35,725,722)	(\$5,687,344)

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## Employee Satisfaction

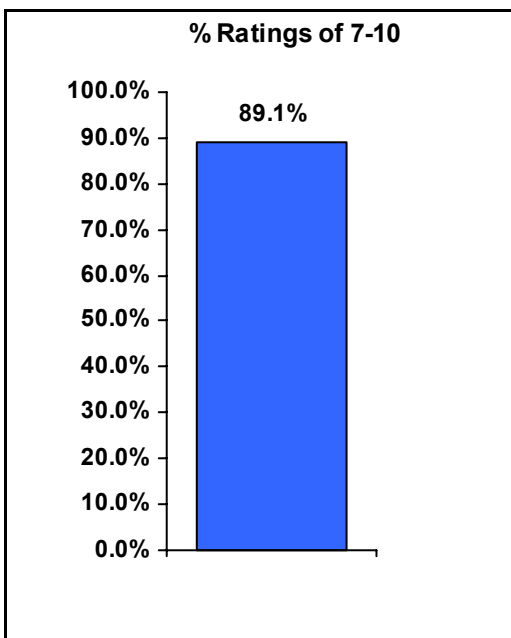
Input from employees is important as a barometer to help us work to continually improve the quality and covered services provided by the health benefits program. That's why periodically we conduct surveys to measure their level of satisfaction. The charts below show how State employees rate their health care and the plans according to the standard HEDIS® 2003 CAHPS 3.0H Adult Commercial Survey done in cooperation with the National Committee for Quality Assurance.

The health plan's highest rating related to paperwork, with 91.7% of State employees indicating that paperwork for the plans was not a problem. Finding information received the lowest score: 38.6% said that it was not a problem to find information in written materials or on the Internet.

### ***How Would You Rate All Your Health Care?***

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*Use any number between 0 and 10, where 0 is the worst health care possible, and 10 is the best health care possible.*



### ***How Would You Rate Your Health Plan?***

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*Use any number from 0 to 10, where 0 is the worst health plan possible, and 10 is the best health plan possible.*

